

1997 Revenue Review

In 1997, 91.0 percent of all tax revenue collected by the State of Nebraska was collected by the Nebraska Department of Revenue. Tax collections for the year were \$2,534 million, an increase of \$177.0 million or 7.5 percent above 1996. The receipts from permits, fees, and licenses collected by the department were \$1.30 million, a decrease of 1.5 percent from the previous year.

Nearly three-quarters of the department's net tax receipts in 1997 were from state sales tax and income taxes. Net individual income tax receipts increased

\$103.8 million to \$989.7 million in 1997, an increase of 11.7 percent from 1996. Net receipts from corporation income tax were \$134.1 million in 1997, down \$3.0 million or 2.2 percent from 1996. Net state sales and use tax receipts for 1997 totaled \$895.6 million, an increase of \$68.5 million or 8.3 percent above 1996. Sales tax receipts included \$108 million of sales tax on motor vehicles.

The largest share of tax revenue is deposited in the State General Fund. General Fund revenue sources accounted for 77.8 percent of the total revenue collected by the Department of Revenue in 1997. Sales and income taxes are the primary sources of General Fund revenue.

Motor fuels taxes and sales tax on motor vehicles are deposited in state highway funds. Revenue deposited in the Highway Trust Fund, Highway Allocation Fund, and the Highway Cash Fund accounted for 13.6 percent of revenue collections.

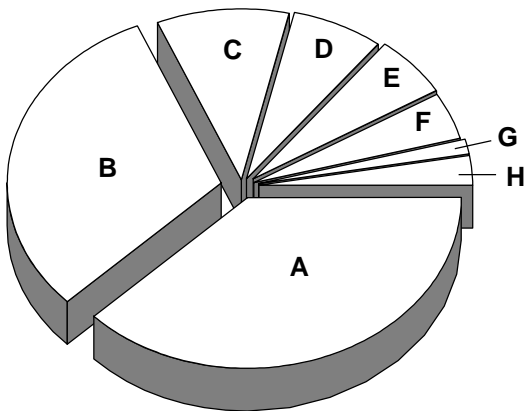
In 1997, 6.8 percent of revenue collections were distributed to local governments. City sales tax and county lodging tax are collected by the Nebraska Department of Revenue and distributed directly to cities and counties.

Revenue deposited in other governmental funds accounted for the remaining two percent of collections.

The major state revenue sources are described beginning on page 9. The descriptions include the basis and current tax rate, due dates of reports and payments, administering agencies or officials, and the manner of distribution of each tax or fee.

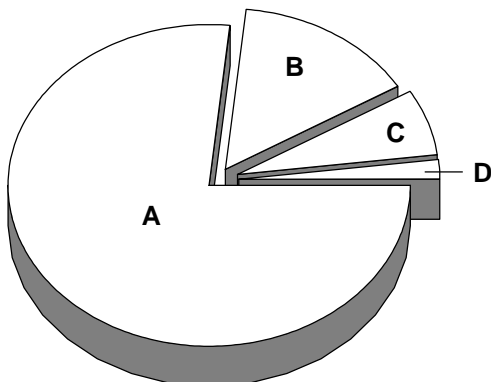
Sources of Revenue

A	Individual Income Tax	39.0%
B	State Sales and Use Tax	31.0%
C	Motor Fuels Taxes	9.3%
D	City Sales Tax	6.8%
E	Corporation Income Tax	5.3%
F	Sales Tax on Motor Vehicles	4.3%
G	Cigarette Tax	1.8%
H	Other Collections	2.5%



Distribution of Revenue

A	General Fund	77.8%
B	Highway and Road Funds*	13.6%
C	Local Governments	6.8%
D	Other Funds	1.8%



* Includes the Highway Trust Fund, Highway Allocation Fund, and Highway Cash Fund

1997 Revenue Legislation

The following is a summary of the major legislation passed by the 1997 Legislature that relates to taxes collected by the Nebraska Department of Revenue.

Sales Tax

Motor Vehicles (LB 62). The sales tax exemption for motor vehicles, trailers, or semitrailers first registered outside Nebraska does not apply to vehicles that are temporarily registered for operation on the highways of the other state, commonwealth territory, possession, or country for a limited time with the intent to remove it, bring it into and register it in Nebraska. Operative October 1, 1997.

Agricultural Chemicals (LB 182A). Sales of adjuvants, surfactants, bonding agents, clays, oils, wetting agents, soil conditioners, and any other additives or compatibility agents for use in commercial agriculture and applied to land or crops are exempt from sales and use tax. The exemption applies to all purchases in periods which have not been closed by the statute of limitations.

Direct Pay Permit (LB 182A). Person or companies purchasing at least \$3 million of taxable property in the state each year can apply to the department for a direct payment permit. Businesses that are issued a direct payment permit are authorized to pay the proper Nebraska and local option tax on certain purchases directly to the Nebraska Department of Revenue in lieu of paying the Nebraska and local option sales tax to the seller. Businesses must submit an application and be approved before their direct payment permit will be issued. The taxpayer must remit the taxes due by the 25th of the month following the month of the purchase. Effective June 11, 1997.

City Sales Tax

Changing Terms (LB 182A). The governing body of a city imposing a local option (city) sales and use tax may submit a question to voters on changing the terms and conditions of a tax previously authorized. The terms and conditions would include such items as the termination date, if any, and the use of funds generated by the tax. Effective June 11, 1997.

Income Tax

Changed for 1997 and 1998 (LB 401). Individual income tax rates have been reduced. The personal exemption credit was increased to \$86 for 1997 and \$88 for 1998. Self-employed individual may deduct health insurance premiums to the extent such expenses are not deductible federally.

Reporting of Changes (LB 62). Whenever the IRS changes the adjusted gross income, taxable income, or federal tax liability of an individual, the taxpayer must notify the department by filing an amended return within 90 days after the final determination, change, or correction. Operative October 1, 1997.

Income Tax Set-off (LB 720). An income tax refund set-off has been established for motor fuel taxes owed under the International Fuel Tax Agreement (IFTA). Effective March 27, 1997.

CHIP Payments (LB 55). Assessments against an insurance company under the Comprehensive Health Insurance Pool (CHIP) may be used to offset income taxes. Also, the premium taxes paid which are allowed to offset income taxes must be taxes paid on Nebraska premiums. Operative for tax year 1997.

Withholding Tax

Filing Frequency (LB 62). Employers whose aggregate withholding for the year is less than \$500 may file an annual return instead of quarterly returns and report the withholding on or before January 31 of the following year. Employers with less than \$500 withholding may elect to continue filing quarterly. Operative January 1, 1998.

Homestead Exemption

LB 128 & LB 397. Provisions for the homestead exemption were changed for applications filed in 1997. Income eligibility levels were increased for all categories of claimants. Closely-related persons who are owner-occupants of the homestead now have the same income eligibility levels as married claimants. The maximum value of a homestead was increased for claimants who qualify for homestead exemptions as service-connected disabled veterans or their widow(ers).

The deadline for filing an application for homestead exemption for 1997 was June 30, 1997. The filing period for applications for future years is April 1 through June 30.

Miscellaneous Taxes

Mechanical Amusement Device Tax (LB 317). Provisions of the MAD Tax were revised in several ways. Machines which accept currency or credit cards are included in the definition of coin-operated machines. Beginning July 1, 1998, for an 18-month period, operators with ten or more machines and distributors will pay a one-time fee of \$250. If an operator has fewer than 10 machines, no license fee will be required, however applications will still be required annually.

The annual occupation tax is increased from \$25 to \$50 per machine or device for the period of July 1, 1998 to December 31, 1999. Thereafter, the tax will be \$35 per machine or device. Penalties for improperly operating a mechanical amusement device change from \$30 to \$75 for each violation. Operative July 1, 1998.

Economic Development Incentives (LB 886). Provisions of the Employment Expansion and Investment Incentive Act (LB 270) were changed in several ways. The changes involve the calculation for new employees and the recapture of credits should the taxpayer fail to maintain the required level of investment and employment. Also, qualifying businesses may combine the employment and investment of two or more parcels of real property which are within the same city or county if the business activities are interdependent. Operative for credits earned after January 1, 1998.